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EPISODE 78:

Navigating North Dakota's Investment Landscape:

Insights from the Department of Trust Lands



Robert Morier: Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, investment consultants, and other important players in the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and our Dakota Live content, please check out dakota.com to learn more about our services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker, who is not affiliated with Dakota. Not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit dakotamarketplace.com today.

Recently, we had the opportunity to travel to Fargo, North Dakota, to better understand the growth of capital in the state of North Dakota. We interviewed a number of different institutions, starting with the North Dakota State University Foundation and then ending with the North Dakota Department of Trust Lands. In this unique episode, you're going to better understand how each individual state operates differently from an investment management perspective, starting with the state of North Dakota. Passing it over to the desk to learn more about this unique organization. The Enabling Act of 1889 facilitated the division of Dakota territory and the establishment of North Dakota, which was granted nearly 2.6 million acres of land to support educational institutions. Managed by the Board of University and School Lands, these lands generate revenue for the state through prudent asset management, including over 700,000 surface acres and 2.6 million mineral acres. Now known as the Department of Trust Lands, this body oversees the administration of these assets, maintaining stable investment returns and expanding income sources for public schools and other beneficiaries, as mandated by the North Dakota Constitution. Commissioner Heringer is responsible for providing overall direction and oversight to all divisions within the North Dakota Department of Trust Lands, crafting policies to help further secure and diversify the department's portfolio, increasing the department's assets, and continually affirming the department's commitment to conservationism. Furthermore, Commissioner Heringer serves as the chief advocate and spokesperson for the department, investing significantly in public relations and legislative

communications, and is a member of the North Dakota State investment Board. Joe was appointed to serve as commissioner in March of 2022. He earned his bachelor's degree from Concordia College in Moorhead and his law degree from the University of North Dakota. Frank Mihail joined the North Dakota Department of Trust Lands in the beginning of 2023 as the Chief Investment Officer, overseeing investments for the approximately \$7 billion sovereign wealth fund. Prior to joining North Dakota, Frank was the Director of Risk Mitigation with the Public Employees Retirement Association of New Mexico. At New Mexico, Frank led core fixed income and absolute return hedge fund strategies for the \$16 billion pension fund. Frank was also with Wedbush Securities out of California for seven years, working in private wealth management. Frank received his BS in mechanical engineering from UC Santa Barbara and his MBA from UCLA Anderson School of Management. He is also a CFA and CAIHR aia charterholder. Most importantly, Frank and his wife now call Bismarck home. We hope you enjoy this unique episode and better understanding the growth of capital in the state of North Dakota.

Well, welcome back to the Dakota Live Podcast. I'm happy that you are both still here speaking with me. Joe and Frank, thank you for being here again. So, one thing I didn't get to ask you on the previous episode, Joe, is your role and relationship with the investment team. So how does that partnership work in terms of your day to day relative to what Frank's goals are?

Joe Heringer: As the commissioner, I oversee the whole agency, and so I have nine divisions. One of the divisions is investments. And I love my investment team. Frank has done a great job. He's been here for about a year now, a little bit over a year, and I probably take a little more interest in investments than maybe prior commissioners because of my background in investments. So, I kind of still like to get my hands in there some. But basically, Frank and his team are responsible for managing and overseeing the portfolio on a day-to-day basis. I have the oversight, ultimately, because actually in our bylaws and our investment policy statement, it says the commissioner is ultimately responsible and then in reporting to the land board. But I really trust Frank. I let him run. He's got great sense. He's got, obviously, great credentials, great experience. He's got great ideas. So, Frank kind of runs with it. He comes to me with his ideas, and most of the time, I say, hey, that sounds great. Sometimes we'll bat them back and forth a little bit and tweak them. But he does a great job, and I trust him. And like I said, I kind of let him run with running the portfolio.

Robert Morier: So, you had mentioned before we started recording that you both recently traveled together to Portland, Oregon, to meet with RVK, who's your consultant. So, when you think about traveling to meet with a consultant or maybe meeting with asset managers, what are you looking for in those meetings as it relates to either the relationship or the opportunity?

Joe Heringer: We value our relationship with RVK. We think they do a great job, and they really act as an extension of our team. One of the things that... we do this once a year. We plan at least an annual trip out to RVK's headquarters. I think it's just so important to have those in-person meetings. We do a lot remote via video calls and emails, but just having that focused time to sit down, see people in person. One of the big things, we get to sit down with each one of their asset category experts. We get to sit down and talk with their leadership team about what's going on, big picture, with their company and where they're heading as a firm. And then we get to do some long-term strategic planning. So, we really look at where we're at right now, and we kind of put almost a year plus plan together, big picture that's going to change, and we're going to tweak it along the way. But it's a great opportunity just to sit down and have that really focused time one on one with them.

Robert Morier: Frank, I'm going to quote this back to you to make sure I got it correctly... \$3.5 billion, 17 mandates, 50% of the pool since you've started. So, tell us about what that process was like. When we spoke last on the podcast, a lot of these initiatives were just being kind of laid out, but you've now put a lot of them to work. So, could you talk a little bit about some of the areas that you've specifically allocated to as it relates to those numbers?

Frank Mihail: Yeah. Well, I guess first I'll start by saying really goes to show how efficient our board is as a state government board. We're nimble... five people... and efficient. We meet monthly, so we can move faster than boards who meet quarterly. Also, with... yeah, with Joe's support and trust in my ideas and with RVK's vision and assistance, we have-- sort of thinking about the portfolio, going down the list of asset classes, we introduced 130-30 long-short strategies and to our public equity program. We started a venture capital program and our private book. We just restructured our entire public fixed income by indexing it. In private credit, we've added some distressed mandates and built out the core as well. In real estate, we restructured it by indexing. And in hedge funds, not really a big change there, just continuing to allocate. And then we're bringing an infrastructure mandate next month. So, we've done work in every single asset class.

Robert Morier: Unbelievable. How about operational improvements? Any efficiencies that you've introduced, whether it's through technology or other types of platforms?

Frank Mihail: Hiring Teresa... she just hit her one-year anniversary... was a huge help operationally. And we've worked through an RFP in the last year to bring on a performance reporting software. As the portfolio grows more complex, moving away from doing everything manually in Excel. And we're going to be introducing a cloud-based software to help us have access to better look through in terms of return attribution, liquidity profiles, and putting together reports for the board.

Robert Morier: Have you found anything to help your inbox yet? And I'm sure you get a lot of emails from asset managers and folks who are looking to get your attention.

Frank Mihail: No, but I hear there's, like, some... maybe AI can help me with that.

Robert Morier: We'll have to ask John about it. It sounds like the Bison Fund is doing some work there.

Joe Heringer: We're so thankful for our board. They've been very trusting of us. And we really appreciate that. They've let Frank and I run with the portfolio. And so, we're just thankful that they're innovative enough to see the ideas and open enough and just have put the trust in us to do what we feel is best for the portfolio.

Robert Morier: Joe, the department sits at a very interesting intersection between the energy sector and the education sector, particularly with this mission and goals. So, when you think about the balance of those two areas, how do you think about it as commissioner? You've got a lot to oversee, and then you've got these two kinds of barbells that you have to make sure weigh relatively equally. So how do you think about that as it relates to the overall mission?

Joe Heringer: Yeah. I mean, I think the education is our focus, is our goal, is our mission. That's really what we're all striving for is we want to maximize the value and the return of these state resources and the state funds so we can fund education as much as we can. We just want to grow the pie as big as we can. One of the ways that we do that is generating revenue. Investment return is one side of things. The other side is revenue generation. The vast, vast majority of the revenues that we generate come from oil and gas royalties. We're fortunate as a state to have great oil and gas resources, and we're fortunate that the oil and gas industry has come to the state and put billions and billions of dollars into building out their infrastructure and their programs. So, we value the partnership of the oil and gas industry. I mean, you look at what they've done for the state as far as the tax revenue going to support jobs, education, other state programs. So, we view them as a partner, I guess, in doing business because we need to work with them. They need to work with us. They want our lands to generate revenues for their business. They, in turn, send us a portion of that revenue through the royalties we receive. So, we very much view that as a business partnership relationship. But then education is our beneficiaries. They're who we're doing all the work for. They're who we are working with oil and gas industry for is to generate that revenue and to grow it as much as we can.

Robert Morier: Frank, I remember when we last spoke, you'd mentioned in the portfolio there is no oil and gas exposure directly, mainly because of what Joe just described. So how do you look about... how do you look for ways to essentially gain exposure to the sector without investing in it directly, based on the way Joe just described things?

Frank Mihail: We don't have a commodities book. I would say, in our infrastructure book, there is some energy power infrastructure. That's how we would get exposure.

Robert Morier: Makes sense.

Frank Mihail: Yeah.

Robert Morier: Well, one of the million-dollar questions that our audience, particularly the asset managers, like to hear the answer to... and I asked you this when we last spoke, but we talked about what you've done since you've started. But how about the next 6 to 12 months? Any specific areas of focus that are on the table?

Frank Mihail: At this point, no. Things will start to slow down for us, but we will continue our pacing plan in private equity and private credit. We'll probably be doing one private credit and one venture capital mandate every year for the foreseeable future.

Robert Morier: Well, I have to say, your sister plan, Scott Anderson, the Chief investment Officer for North Dakota Retirement Investment Office, was on the show recently. And both of you are very busy. So, it is amazing. Different approaches. He's building out an internal investment office. Is that something that you ever considered as a plan, bringing in people maybe to invest in, whether it's public equities, maybe some fixed income internally?

Joe Heringer: We work with Scott a lot. We collaborate. He's a great professional. Great to have him as, like you said, a colleague. And I'm on the state investment board, too, so I get to talk and meet with Scott a lot. I love working with him. Honestly, I think we're going to see how it goes. I'm interested to see how the program goes for the Retirement Investment Office. I know that they're just in the process of putting together all the systems because you have to develop new systems as far as trading and reporting and auditing and all that. And then, there, they're going to start hiring professionals. So, I think I'm curious to see how it goes, and I'll be watching it really closely. Right now, we don't really have any plans for that, but we're definitely going to be watching closely as Scott builds out his internal program.

Robert Morier: Frank, you're a recent transplant to North Dakota. So, tell us about what you've liked about the state since you've been here.

Frank Mihail: It's beautiful. I really love the Missouri River that runs through town and really excited to get out there this summer. And, yeah, I think, coming from a big city like Los Angeles, you just notice that the smaller the town, the friendlier the people.

Robert Morier: Joe, what should people about the department and the state of North Dakota that they may not have known prior to this conversation?

Joe Heringer: Well, I'm a North Dakota native. I grew up in Bismarck. I love the state. I moved away for a while, came back. It's a great state to grow up in, raise a family. That's one of the big reasons why I moved back, because I wanted to raise my family here. We're glad to have newcomers like Frank. I always tease Frank that he saw the light and came to North Dakota from California. So, we always love having them. And we have a great education system. Our K through 12 schools are great. The universities are great. Here on the NDSU campus, I mean, you can see what the great things they're doing here on the college campuses, too. I think one of the stories about North Dakota is how innovative we are. There's lots of new industries coming into the state, whether it's ag product type industries or using the natural resources we have for other byproducts, things... carbon capture is being developed in the state now. So, there's lots of new industries and opportunities developing. And our government, we do... the government, the state government, does a good job. We don't overspend. We have a healthy surplus. We manage things fairly conservatively, so we don't get ourselves in trouble by overextending. And that benefits all the citizens. I mean, we have funds to do projects and build all the infrastructure, build new university facilities, things like that. So, I think the state overall has been run very well the past several decades.

Robert Morier: Well, I have two colleagues with me who I'm going to give a very warm nod to because they set up this whole operation, and they are also going to be hitting the road. They're going to be going west from Fargo as soon as they pack up the equipment. So, what's one spot that they should hit on their way west? They're going to be heading towards Bismarck and then ultimately down into South Dakota. So, what's your recommendation for them?

Joe Heringer: I would hit the Badlands in the western part of the state. Medora is the town out there. It's not as busy now during the early spring. But in the summer, it is very good and very exciting. It's like an Old West town. And the Badlands are great. They're beautiful. You're going to love the scenery. And then you can go to our lesser neighbor to the south, South Dakota, I guess. No, we love South Dakota. You got to see Mount Rushmore in South Dakota. So, yeah.

Robert Morier: That's wonderful. How about Frank? How about you, since you've been here?

Frank Mihail: I think Joe hit the spots. But I would say, if you want a better chance at seeing some bison, you got to go to the north gate I would recommend of the Badlands, Teddy Roosevelt Park, and then, yeah... and Mount Rushmore is in the Black Hills. I would definitely recommend Needles Highway.

Robert Morier: Thank you for sharing that for them. Thank you for being here today. We greatly appreciate your time, your insights. It was wonderful to see you again, Frank. Thanks for doing this live. And we'll thank North Dakota State University again. It's wonderful to hear the partnership that you all have with the university. It's really been a special opportunity for all of us to be able to sit here today. So, thank you for your time.

Joe Heringer: Thanks for having us. Happy to do it.

Robert Morier: Thank you for tuning in to this special episode and thank you for investing your time with Dakota.